

Under the Indenture the Sewer System rates and charges must be sufficient to produce Net Revenues at least adequate to provide for (i) the payments required by the Bond Legislation to be made into the Revenue Fund, (ii) sufficient funds to pay the Principal and Interest Requirements on any General Obligation Bonds, General Obligation Notes and all other Obligations of the County incurred for Sewer System purposes, (iii) sufficient earnings coverage to permit the issuance of the Additional Bonds required for the construction of necessary or advisable extensions or improvements of the Sewer System and (iv) to provide for the normal growth and sound operation of the Sewer System. Failure to maintain the required coverage ratio can be an event of default if remedial action is not taken.

THE WATERWORKS SYSTEM

Operations

The County currently operates three water treatment plants, Bob McEwen, P.U.B. and M.G.S. Storage in the system is through 6 surface storage tanks (7.4 MG capacity) and 17 elevated storage tanks (8.0 MG capacity). Five booster stations aid in the distribution of the water throughout the system.

Bob McEwen. Complete in 1995, the Bob McEwen Water treatment plant and Intake facility is currently a 10 MGD surface water treatment plant. The major units of the plant processes include rapid mix, flocculation and sedimentation basin for chemical treatment and clarification, rapid sand filtration, and finished water storage and pumping facilities. In 1999, the County added a granular activated carbon filtration system at the plant. A water supply contract allows the County to withdraw up to 20 MGD from the East Fork Reservoir, the plant and intake have been designed to allow for future expansion to treat that volume.

The Water Supply Contract

The County has obtained this 20 mgd supply of surface water by contract with ODNR executed on September 30, 1992. ODNR, in turn, has a contract (Contract No. DACW 27-69-C-0088, dated January 15, 1970) with the Army Corps of Engineers (the "Corps Contract") whereby ODNR obtained the right to use a portion of the East Fork Reservoir storage capacity constituting 37 mgd. The Water Supply Contract is subject to all the provisions of the Corps Contract.

The East Fork Reservoir was created when the Army Corps of Engineers (the "Corps") constructed a dam, completed in 1978, on the East Fork of the Little Miami River pursuant to the Flood Control Act of 1938. Its intended uses included flood control, recreation and water supply. The real estate is owned by the United States of America and is leased to the State. The Corps operates and maintains the dam and controls the water level in the East Fork Reservoir. ODNR operates the recreational activities at Lake Harsha that are within a State Park.

The Water Supply Contract grants the County two vital elements: (1) the right to withdraw up to 20 MGD of raw water within certain specified levels in the Reservoir, and (2) the right to construct and operate the Intake Facility, subject to the approval of OEPA. ODNR does not warrant the fitness or quality of the water supply and is not liable for a failure to supply water

when it is not physically available. While the Water Supply Contract does not expire for 49 years, the Corps has the right to alter the available water supply after the year 2028.

The County has 4 payment obligations under the Water Supply Contract. First, the County must pay ODNR \$168,000 annually commencing in 1993. Second, the County must pay ODNR \$32,000 annually commencing in the first full year when water is actually withdrawn. Third, the County must reimburse ODNR in full for any payments the State owes the Corps under the Corps Contract for operation and maintenance costs incurred by the Corps to operate the East Fork Reservoir. The State is obligated to pay 14.26% of this cost under the Corps Contract. Fourth, the County must reimburse ODNR for 54% of any payments to be made by the State to the Corps pursuant to the Corps Contract for any major capital replacement and rehabilitation costs of the East Fork Reservoir. The State is obligated to pay approximately 18% of such costs under the Corps Contract.

P.U.B. The PUB plant is a ground water treatment plant consisting of 20 wells located in the southern portion of the county near the Ohio River. It currently has a capacity to produce 15 MGD for distribution into the system.

M.G.S. The MGS plant is a ground water treatment plant consisting of 5 wells located in the northern portion of the county near Loveland, Ohio. It currently has a capacity to produce 2.2 MGD for distribution into the system.

The Waterworks System pumped an average of approximately 11,955,890 gallons of water per day in 2003, with a maximum peak day of approximately 18,847,000 gallons. The average customer unit requires 224 gallons per day, which translates into an average monthly bill of approximately \$19.40. The average residential customer unit requires 175 gallons per day. The 10 largest users for the year 2003 were:

	Consumption/ Gallons	% of System Usage	Water Revenue	% of System Revenues*
1) Batavia Village	84,111,000	2.3%	\$179,998	1.8%
2) Batavia Transmissions	81,839,000	2.2	200,158	2.0
3) Williamsburg Village	70,185,000	1.9	150,196	1.5
4) 3M Precision Optics	40,936,200	1.1	185,667	1.8
5) New Richmond Village	24,050,000	0.7	51,467	0.5
6) Cintas Corp.	23,811,400	0.6	51,808	0.5
7) City of Milford	21,892,000	0.6	46,849	0.5
8) Greenbriar Mobile Home Park	21,241,000	0.6	47,160	0.5
9) Arrowhead Appartments	14,890,000	0.4	39,926	0.4
10) Lakeshore Estates Mobile Home Park	14,490,100	0.4	37,081	0.4
TOTAL	<u>397,445,700</u>	<u>10.8%</u>	<u>\$990,310</u>	<u>9.9%</u>

* Represents percent of service charge revenues

Financial

The following summary of operations of the Clermont County Waterworks System Revenue Fund has been derived from financial statements prepared by Clermont County Sewer District, and examined by independent certified public accountants; however, this summary was not prepared by, nor can it be attributed to those certified public accountants. The opinion of Bastin & Company, LLC, on examination of financial statements for the years 2002 and 2003 appear in Appendix H of this Annual Information Statement.

This summary should be read in conjunction with the financial statements and related notes that appear in Appendix H of this Annual Information Statement.

	<u>Water System - Year Ended December 31,</u>				
	1999	2000	2001	2002	2003
REVENUES:					
Water Sales	\$11,074,323	\$10,707,807	\$9,764,862	\$11,020,109	\$10,121,007
New Meters and Services	924,235	0	845,335	780,715	804,769
System Capacity Charges	1,996,085	1,946,300	1,825,655	1,958,416	2,084,464
Interest on Investments	1,508,642	1,945,743	2,024,722	1,194,867	972,064
Other	<u>216,912</u>	<u>765,363</u>	<u>139,612</u>	<u>146,052</u>	<u>170,539</u>
TOTAL REVENUE	<u>\$15,720,197</u>	<u>\$15,056,026</u>	<u>\$14,600,186</u>	<u>\$15,100,159</u>	<u>\$14,152,843</u>
EXPENDITURES:					
Salaries, wages, Benefits	\$2,612,301	\$1,011,539	\$752,117	\$702,703	\$ 662,992
Utilities	855,397	178,347	6,442	233,429	308,779
Repairs & Maintenance	234,114	100,919	39,058	27,254	91,980
Materials & Supplies	1,188,868	615,606	258,940	7,102	5,984
Professional Services	550,128	3,350,811	3,717,225	4,209,800	3,956,256
Interest on Bonds	2,750,259	2,686,823	2,613,231	2,535,346	2,378,913
Other	309,187	10,087	23,862	596	444,430
Depreciation	<u>3,228,240</u>	<u>3,259,818</u>	<u>3,775,196</u>	<u>3,304,783</u>	<u>3,290,588</u>
TOTAL EXPENSES	<u>\$11,728,494</u>	<u>\$11,213,950</u>	<u>\$11,186,071</u>	<u>\$11,021,013</u>	<u>\$11,139,922</u>
EXCESS REVENUES OVER EXPENSES	\$3,991,703	\$3,842,076	\$3,414,115	\$4,079,146	\$3,012,921

Under the 2003 Bond Indenture, the County covenanted to charge such rates and charges for the services and facilities of the Waterworks System as shall at all times produce revenues in excess of the expenses of operating and maintaining the Waterworks System of not less than 110% of the maximum annual debt service on all bonds. The computation of the coverage ratio under the 2003 Bond Indenture for all Bonds outstanding as of December 31, 2003 for the year ended December 31, 2003, based on the audited 2003 figures, is as follows:

December 31, 2003

Excess of revenue over expenditures	\$3,012,921
Add:	
Interest Paid on Bonds	2,415,993
Deferred debt amortization	43,270
Depreciation expense	3,290,588
Net Pledged Revenues	<u>\$8,762,772</u>
Debt Service Requirements on Bonds in 2003	<u>\$4,155,993</u>
Coverage ratio	<u>211%</u>
Required coverage ratio	<u>110%</u>

Under the 2003 Bond Indenture the Waterworks System rates and charges must be sufficient to produce Net Revenues at least adequate to provide for (i) the payments required by the Bond Legislation to be made into the Revenue Fund, (ii) sufficient funds to pay the Principal and Interest Requirements on any General Obligation Bonds, General Obligation Notes and all other Obligations of the County incurred for Sewer System purposes, (iii) sufficient earnings coverage to permit the issuance of the Additional Bonds required for the construction of necessary or advisable extensions or improvements of the Waterworks System and (iv) to provide for the normal growth and sound operation of the Waterworks System. Failure to maintain the required coverage ratio can be an event of default if remedial action is not taken.

COUNTY DEBT AND OTHER LONG TERM OBLIGATIONS

The following describes statutory and constitutional debt and ad valorem property tax limitations applying to the County and presently outstanding and projected bond and note indebtedness and certain other long-term financial obligations of the County.

In recent years the County has issued a number of industrial revenue bond issues. No schedule for these bonds is provided because such bonds do not represent an obligation of the County. These bonds are payable solely from rentals and other revenues derived from the lease, sale or other disposition of the projects financed thereby.

No bonds have been authorized by the electors that have not yet been issued.

The County is not and has never been in default on any of its debt obligations.

Statutory Direct Debt Limitations

The Revised Code provides that the aggregate principal amount of unvoted "net indebtedness" of a county, such as the County, may not exceed one percent of the total value of all property in such county as listed and assessed for taxation, and that the aggregate principal amount of voted and unvoted "net indebtedness" of such county may not exceed a sum equal to three percent of the first \$100,000,000 of the assessed valuation, plus one and one-half percent of